Methods of Payment, Public and Private Acquisition

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This study examines shares price behaviour around acquisition announcement in the Malaysian stock market from year 2000 to 2005. The result shows that on announcement day, target and acquiring firms have statistically significant positive abnormal returns. Acquiring and target firms with cash offers have more abnormal returns gains than share offers. Acquiring of unlisted target has significantly positive returns, regardless of the methods of payment. The returns of acquiring of listed target do depend on the method of payment; cash offers have significant positive returns, while share offer is negative but not significant.

Field of Research: Abnormal returns, acquiring firms, target firms, market model, methods of payment, merger and acquisition, listed and unlisted target.

1. Introduction

Most studies on mergers and acquisition seem to have agreed that target firms receive a significantly positive abnormal return around the announcement period (Firth, 1980; Dodd, 1980; Malatesta, 1983; Jensen and Ruback, 1983; Limmack, 1991; Gregory, 1997; Leeth and Borg, 2000; Rodrigues, 2003), while acquiring firms reveal mixed empirical findings. Some studies reported shareholders of acquiring firms experience positive abnormal returns from an acquisition (Langetieg, 1978; Asquith, Burner and Mullins, 1983; Dennis and McConell, 1986; Walker, 2000). On the other hand, other researchers such as Asquith (1983); Bradley, Desai and Kim (1983); Dodds and Quek (1985); Gregory (1997); Limmack (1991); Draper and Krishna (1999); Mitchell and Stafford (2000); Faccio, McConnell and Stolin (2006) have indicated that merger and acquisition generate non-positive abnormal returns to the shareholders of acquiring firms. However, most of these studies were conducted in the USA, while very little research on mergers and acquisition is done on developing markets such as Malaysia.

As for the methods of payment, generally, there are two commonly used methods - share exchange or cash payment, or a mixture of share and cash payment. This study will examine share behaviour of target and acquiring firms in Malaysia that involves in acquisition event from the period of 2000 to 2005. The results of this study should enrich our knowledge on the acquisitions and method of payment, particularly in the case of cash and share payment. Currently there is a dearth of research literature on this topic

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for the Malaysian situation and hence this study would serve to add to existing literature such as Mansor, (1994), and Fauzias (2004).

The paper is organized as follows. Section 2 a brief review of the previous literature on acquisition and methods of payment. Section 3 describes the data sample and model use in the study. Section 4 summarizes the empirical results and Section 5 conclusions.

2. Literature Review

2.1 Pervious Malaysian studies

This section gives an overview of Malaysian acquisitions on shareholders wealth. There are very few studies which examine the issue of short-term abnormal return to acquiring and target shareholders in Malaysia.

Mansor (1994) examine the share performance of target and acquiring firms over the event window of 101 trading days around acquisition announcement. He finds target firms have insignificantly positive abnormal returns on announcement date.[1] Market reactions to the acquiring share price in the pre-announcement period are somewhat similar to the targets, but with a lower magnitude, and on announcement date the abnormal returns are insignificantly negative returns. The target firms' results of this study are consistent with Fauzias (1992).[2] In Mansor (1993), the evidence shows that target earns more abnormal gains than acquiring firms, however on the announcement date both have significantly negative abnormal returns. This study also document that on the announcement date successful and unsuccessful target and acquiring firms have negative but insignificant average returns.

Mansor (1994) and Fauzias (2004) study the choice of methods of payment in Malaysia acquisitions. The result indicates that acquiring firms have insignificant results on announcement date, regardless of the choice of methods of payment. Mansor (1994) shows that on announcement date target firms with cash payment earned insignificantly negative returns, and target firms with share payment insignificant positive returns.

2.2 Methods of payment

Many studies such as Carleton, Guilkey, Harris and Stewart (1983); Wansley, Lane, and Yang (1983); Travlos (1987); Huang and Walking (1987); Murphy and Nathan (1989); Travlos and Papaioannou (1991); Mansor (1994); Martin (1996); Draper and Paudyal (1999); Emery and Switzer (1999); Silva Rosa, Izan, Steinbeck and Walter (2000) presented that acquisition with different methods of payment yielded different impacts on the value of shareholders.[3] Most of the studies suggest that target with cash offer have greater abnormal returns than share offers, while for the acquiring firms with different method of payment the results is mixed.

Leland and Pyle (1977) and Myers and Majluf (1984) studies about the signalling models, suggests that under asymmetric information, managers prefer a cash offer if they believe that acquiring firm's stock is undervalued. In this way the method of payment acts as an information signal, investors interpret a cash offer as good news and share offer as bad news about the acquiring firm's future prospects. Consequently, an acquisition of cash offer is expected to have a positive impact on the acquiring firm's share price, whereas a share offer is expected to have a negative impact (Jensen and Ruback, 1983). Draper and Paudyal (1999) discuss about the methods of payment conveys a signal to investor in the absence of full information. Since the receipt of cash is less risky compared to share offers in an acquisition, the cash payment may be expected to generate higher returns to the shareholders of target firms.

When firms offer shares to acquire privately/unlisted targets with a small number of shareholders, the prior owners of the target may end up holding a substantial proportion of the shares of the combined firm and hence may monitor managerial activities more closely (Draper and Paudyal, 2006). Announcement of acquisition of unlisted target with share offer should convey positive information and generate abnormal returns to the acquiring firms. Other studies such as Chang (1998), Ang and Kohers (2001), Fuller *et al.*(2002), and Conn *et al.* (2005) reported that acquiring of unlisted target gain and acquiring of listed target suffer loss, irrespective of methods of payment.

3. Data and Methodology

3.1 Data

Our sample covers all non-financial firms listed on Bursa Malaysia (formerly know as Kuala Lumpur Stock Exchange) from 1 January 2000 through 31 December 2005. The sample acquisitions are identified by a search of the various issues monthly *Investor Digest* published by the Bursa Malaysia. Each announcement dates of acquisition was then traced to its announcement proposal from the companies online announcement database and cross checked with the *Business Times* daily newspaper. The event date taken is effectively the first announcement that appeared in the press release regarding the acquisition. The following criteria are use to screen the data:

(1) Purchase stake must more than 33% voting rights of targets in order to create the holding company as provided for under Part II Section 12 of the Malaysian Code on Takeovers and Mergers 1998,
(2) The M&A announcement dates are available in the *Investor Digest* and Bursa Malaysia online announcement database,
(3) The company daily share price data is available in Bloomberg, which from 130 trading days prior to the date of the announcement to 130 trading days after the announcement,
(4) Have information available about the value of purchase price, and
(5) The purchase price for the target at least RM10 million.[4]

There are 188 acquisitions satisfying criteria 1 through 5 and most of the acquisition are finance by cash offers. This could be due to the change of regulation that from 1995, the regulation allows cash more freedom to cash acquisition in the sense that such acquisition would no longer need approval from the Securities Commission. Another possible explanation for the increases use of cash offers is the added incentive where money borrowed for such acquisition is tax deductible for the acquiring corporation. The final sample consists of 154 acquiring firms and 37 target firms. The acquisition transaction with mixed between cash and stock are excluded in the study because of the small number in this category.

3.2 Measuring abnormal returns

The standard event methodology is use to examine the share price behaviour of target and acquiring firms around acquisition announcement. The market model parameters for firm *j* on day *t* in the absence of acquisition event were obtained by running the following regression in the estimation period:

$$R_{jt} = \alpha_j + \beta_j R_{mt} + \varepsilon_{jt}$$

where: R_{jt} = the daily stock return of firm *j* on day *t*,

R_{mt} = the daily market return/market index (KLCI) on day *t*,

α_j = the intercept measuring the mean return over the period that is not explained by the market,

β_j = the slope coefficient measuring the sensitivity of firm *j* to the market,

ε_{jt} = is an uncorrelated error term with mean zero and constant variance.

The market model analysis consists of two steps. First, to estimate (α_j and β_j) using 100 daily observations prior to the test period defined as estimation period (day -130 to -31 and day +31 to +130), and event window 30 days before and 30 days after the announcement day. Second, determine the normal return in the absence of the acquisition event using:

$$\hat{R}_{jt} = \hat{\alpha}_j + \hat{\beta}_j R_{mt}$$

Where $(\hat{\alpha}_j, \hat{\beta}_j)$ is the Ordinary Least Square estimate of (α_j and β_j).

Abnormal returns are the difference between the observed returns and the normal or the expected returns as predicted by the market model:

$$AR_{jt} = R_{jt} - \hat{R}_{jt}$$

where: AR_{jt} = abnormal returns for firm *j* on day *t*,

R_{jt} = actual returns for stock *j* on day *t*,

$\hat{R}$ = estimate returns.

For each day t within the study window, the cross-section average abnormal return (AAR_t) and the cumulative average abnormal return (CAR_t) were calculated as follow:

$$AAR_t = \frac{\sum AR_{jt}}{N}$$

where: N = the number of firms at day t.

$$\overline{CAR}_{T_1,T_2} = \sum_{t=T_1}^{T_2} \overline{AR_t} \qquad T_1, T_2 = [-30 \text{ to } +30]$$

The $\overline{CAR}_{T_1,T_2}$ reveals the average total effect of an acquisition announcement over the specific period.

To test the hypothesis of significant abnormal returns, Brown & Warner (1985) approach is applied. Each excess return (AR_{jt}), is divided by its estimated standard deviation to yield a standardized excess return, $S(AR_{jt})$:

$$AR'_{jt} = \frac{AR_{jt}}{S(AR_{jt})}$$

where:

$$S(AR_{jt}) = \sqrt{\left(\frac{1}{100-1}\right)\sum_{t=-130}^{t=-31}\left(AR_{jt} - AR_j^*\right)^2} \text{ , and}$$

$$AR_j^* = \frac{1}{100}\sum_{t=-130}^{t=-31} AR_{jt},$$

The test statistic for any given day is given by:

$$T_t = \left(\sum_{j=1}^{N_t} AR'_{jt}\right) * (N_t)^{-1/2}$$

Assuming that the standardized excess returns are independent and identically distributed with finite variance, T is distributed standard normal for an unknown population mean.

4. Empirical Results

4.1 Returns of target and acquiring firms

As shown in Figure 1, the target and acquiring firms' market values react positively on announcement date. The declining CARs pattern for acquiring firm began to deteriorate from day -30 until before announcement date, and increase in day 0 until day 2. While for the target firm the CARs begin to increase from day -14 to day 2 and tend to level off from day 3 onwards. It increase dramatically on day -1 and day 0. Most of the returns occurred on day 0 and this may imply that Bursa Malaysia is reasonably efficient in response to acquisition announcement.

Figure 1: Cumulative average daily abnormal returns for target and acquiring firms around acquisition announcement from year 2000 to 2005

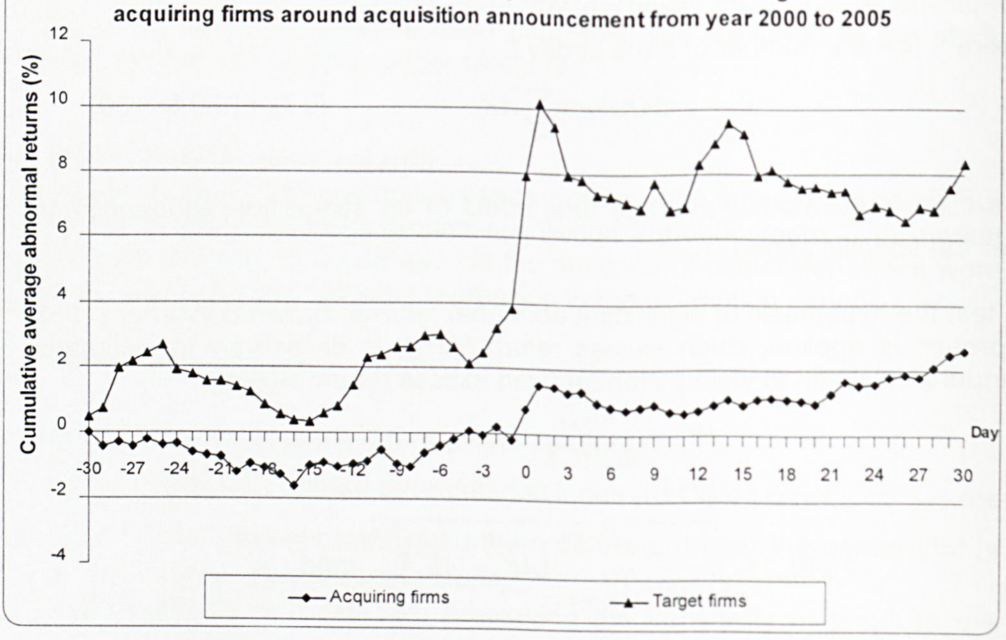


Table 1 show that there is a statistically significant positive effect on both target and acquiring firms on announcement day. For the target firm, the ARRs on day 0 is 4.39%, which is statistically significant at the 0.01 level, (t = 19.7745), and CAR is 7.96% (from day -30 to day 0). This follow by day 1 (AARs is 1.98%, t = 13.8203) is also statistically significant at the level of 0.01. However, on day -1, the AARs are 0.62%, which is insignificant at the 0.05 level. While on day -3 show a positive AARs of 0.33%, which is only statistically significant at the level of 0.05 (t = 2.0757). This could be a leakage of information as the ARRs at day -2 and day -1 has increase positively, but not plausible due to the increase not statistically significant. For the acquiring firms, the AARs are insignificant at pre-announcement period, except for the day -15, AARs is 0.65% (t = 2.5804), and is statistically significant at the 0.01 level. At the post-announcement the significantly positive average daily abnormal returns only maintain at day 1, and from day 2 to day 30 are insignificantly returns. This may indicate that on average, no shareholders value has been created.

Table 1
Percentage average daily abnormal returns (AARs) and cumulative average abnormal returns (CARs) for acquiring and target firms during the Years 2000 to 2005

Event	All Acquiring Firms (N=154)			All Target Firms (N=37)		
Day	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	-0.0006	-0.1828	-0.0006	0.1921	0.5007	0.1921
-25	-0.1552	-0.2587	-0.3848	0.2408	-0.1324	2.4068
-20	-0.4685	-1.2898	-1.2036	-0.1726	0.4751	1.1131
-15	0.6455	2.5804***	-0.9856	-0.0361	-0.4051	0.0762
-10	0.3312	0.6496	-0.5201	0.0780	0.0763	2.0949
-9	-0.4197	-1.5929	-0.9398	0.2897	1.1423	2.3846
-8	-0.0811	0.2264	-1.0209	-0.0086	-0.4348	2.3760
-7	0.4352	2.2805**	-0.5857	0.3418	0.6046	2.7178
-6	0.1936	1.1954	-0.3921	0.0272	0.7078	2.7450
-5	0.2233	0.1119	-0.1688	-0.3622	-0.0457	2.3828
-4	0.2604	1.2209	0.0916	-0.5116	-1.1834	1.8712
-3	-0.1538	-0.0130	-0.0622	0.3323	2.0757**	2.2035
-2	0.2557	1.1032	0.1936	0.7463	1.7943	2.9498
-1	-0.3628	-0.9272	-0.1692	0.6170	1.5464	3.5668
0	**0.9826**	**5.4292*** **	**0.7641**	**4.3925**	**19.7745*** **	**7.9593**
1	0.6419	3.2886***	1.4552	1.9813	13.8203***	9.9406
2	-0.0200	-1.4621	1.4353	-0.7516	-2.1556**	9.1890
3	-0.1809	-1.4606	1.2544	-1.4737	-2.8567**	7.7153
4	0.0326	0.3037	1.2870	-0.1401	0.0173	7.5752
5	-0.3351	-1.5171	0.9519	-0.4350	-0.7790	7.1403
6	-0.1125	-0.3660	0.8394	-0.0622	-1.0380	7.0780
7	-0.0952	-0.3596	0.7441	-0.1916	1.1242	6.8865
8	0.0855	0.0735	0.8296	-0.1931	-0.2020	6.6934
9	0.0996	1.3283	0.9292	0.8204	2.6046***	7.5138
10	-0.2287	-0.5564	0.7005	-0.8426	-1.3315	6.6712
15	-0.1700	0.0030	0.9041	-0.3697	-1.0283	8.9687
20	-0.1071	-0.5739	0.9596	0.0761	0.2229	7.3904
25	0.1748	0.4208	1.7480	-0.1271	-0.0950	6.6598
30	0.1010	-0.0663	2.5586	0.7777	2.0054**	8.0938

* Different from zero at 10% significant level
** Different from zero at 5% significant level
*** Different from zero at 1% significant level

4.2 Method of payment and share price behaviour

The analysis is extended to examine the wealth accumulation of the target and acquiring firms according to the different of methods of payment either cash and share, and acquiring firms returns relatively to listed and unlisted target.

(a) Returns of target firms

Table 2 show that at the announcement day, the cash offers (AARs = 5.23 %, t = 21.7275) have higher positive returns than share offers (AARs = 2.66%, t = 3.3619), which appear to be statistically significant at the level of 0.01. Over the pre-announcement period [day -30 to -1], the share offers average daily abnormal return is insignificant until announcement day. But for post-announcement AARs is significantly negative return. While for the CARs over the 61 days examination period, the share offers is -6.89%, compare with the cash offers the CARs is 15.29%. The result of target with cash offer and share offer are consistent with the payment methods signalling hypothesis. This might suggest that an acquisition involving cash transaction are associated with significantly positive adjustment as investors believe the target share is undervalue, while acquisition with share offers as the method of payment have lower average daily abnormal returns.

Figure 2 show that there is a difference of CARs in the methods of payment. Target firm with cash offers, on average have positive CARs, and share offers have negative CARs. On the announcement day [day 0], cash offers acquisition have about 12% CARs, share offers CARs is less than 1%. This might shows that Malaysian investor does not favour of share offers acquisitions.

Figure 2: Methods of payment and cumulative average daily abnormal returns for target firms from year 2000 to 2005

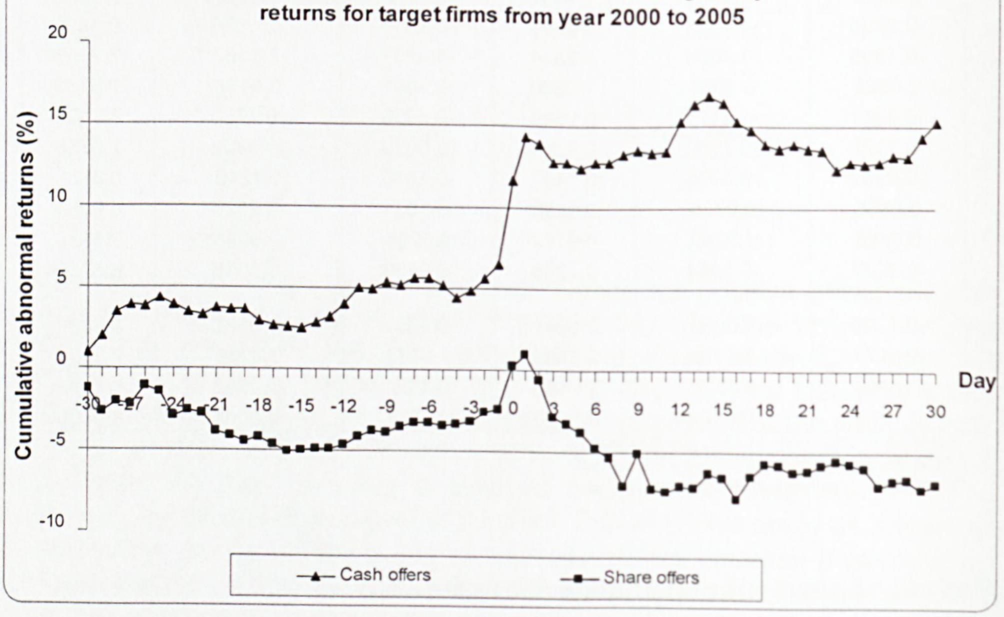


Table 2
Percentage average daily abnormal returns (AARs) and cumulative average abnormal returns (CARs) for target firms by cash offers and share offers from year 2000 to 2005

Event	Cash offers (N=25)			Share offers (N=12)		
Day	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	0.9075	1.5769	0.9075	-1.2985	-1.3970	-1.2985
-25	0.5142	0.1309	4.2693	-0.3289	-0.4213	-1.4733
-20	-0.1117	0.3458	3.6333	-0.2994	0.3351	-4.1375
-15	-0.0925	-0.5642	2.5270	0.0815	0.1030	-5.0298
-10	-0.0362	-0.2292	4.9329	0.3158	0.4648	-3.8176
-9	0.4401	1.3436	5.3730	-0.0235	0.0665	-3.8411
-8	-0.1591	-0.2161	5.2139	0.3048	-0.4516	-3.5363
-7	0.3952	1.2281	5.6091	0.2306	-0.7108	-3.3058
-6	0.0054	0.4640	5.6145	0.0727	0.5731	-3.2331
-5	-0.4237	-0.3027	5.1908	-0.2340	0.3567	-3.4671
-4	-0.8257	-1.7394*	4.3651	0.1427	0.4326	-3.3245
-3	0.4467	2.1683**	4.8119	0.0939	0.5151	-3.2306
-2	0.7873	1.6820*	5.5991	0.6611	0.7229	-2.5694
-1	0.8436	2.4837**	6.4427	0.1448	-0.8695	-2.4246
0	**5.2251**	**21.7275*****	**11.6678**	**2.6577**	**3.3619*****	**0.2331**
1	2.6035	15.9298***	14.2714	0.6851	1.2750	0.9181
2	-0.3940	-0.6901	13.8774	-1.4965	-2.7890***	-0.5784
3	-1.0932	-1.0109	12.7842	-2.2665	-3.5571***	-2.8448
4	-0.0205	-0.3236	12.7637	-0.3891	0.4975	-3.2340
5	-0.3910	0.0453	12.3727	-0.5266	-1.4333	-3.7605
6	0.3977	0.2575	12.7703	-1.0204	-2.1944**	-4.7809
7	-0.0314	1.5025	12.7390	-0.5254	-0.1947	-5.3063
8	0.5575	1.5148	13.2964	-1.7567	-2.5411**	-7.0630
9	0.2603	0.8926	13.5568	1.9873	3.2852***	-5.0758
10	-0.2072	0.0352	13.3496	-2.1663	-2.3889**	-7.2420
15	-0.4259	-1.0450	16.3978	-0.2528	-0.2972	-6.5087
20	0.2852	0.5802	13.9006	-0.3596	-0.4461	-6.1725
25	-0.0494	-0.0224	12.7087	-0.2889	-0.1345	-5.9421
30	0.9656	2.2266*	15.2851	0.3860	0.3075	-6.8881

* Different from zero at 10% significant level
** Different from zero at 5% significant level
*** Different from zero at 1% significant level

(b) Returns of acquiring firms

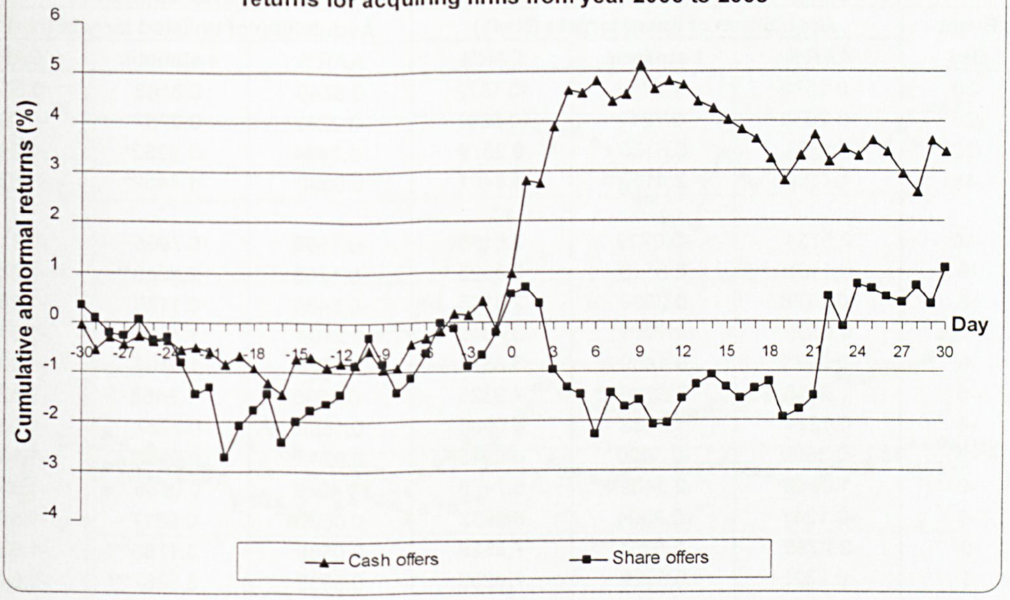
The results in Table 3 indicate that the cash offers, on average have higher returns compare to share offers for acquiring firms. Most specifically, for the announcement day [day 0] the AARs is 0.77% for share offers (t = 1.6857), which is only statistically significant at level of 0.10. As for the cash offers, at the day 0, the AARs is 1.12% (t = 5.0873), and is statistically significant at the level of 0.01. Even though acquiring firms returns at day 0 is consider a very low percentage of value effect between the cash offer and share offer, but is significantly from zero. This might consider that stock offers and cash offer acquisition are valued indifferently by the stock market. Figure 3 displays the Table 3 results and noticeable, at the pre-announcement no obvious difference in the CARs, but the CARs at post-announcement shows a slight difference between cash offer and share offer. For the post-announcement, the cash offers experience positive CARs, this may due to the day 0 and day 1 that have statistically significant positive AARs.

Table 3
Percentage average daily abnormal returns (AARs) and cumulative average abnormal returns (CARs) for acquiring firms by cash offers and share offers from year 2000 to 2005

Event	Cash offers (N=124)			Share offers (N=30)		
Day	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	-0.0773	-0.1765	-0.0773	0.3165	-0.0553	0.3165
-25	-0.0916	-0.0883	-0.3897	-0.4179	-0.4067	-0.3645
-20	-0.2383	-0.6073	-0.8352	-1.4199	-1.6876	-2.7267
-15	0.7056	2.2909**	-0.7362	0.3969	1.1888	-2.0164
-10	0.2735	0.9616	-0.5703	0.5700	-0.4833	-0.3127
-9	-0.3956	-1.7654*	-0.9659	-0.5192	-0.0200	-0.8319
-8	0.0396	0.5391	-0.9263	-0.5800	-0.5829	-1.4119
-7	0.4732	2.3165**	-0.4531	0.2783	0.4575	-1.1335
-6	0.1201	0.9327	-0.3331	0.4974	0.8121	-0.6361
-5	0.1322	-0.4830	-0.2008	0.5998	1.2355	-0.0363
-4	0.3493	1.0766	0.1485	-0.1072	0.5774	-0.1435
-3	-0.0101	0.6279	0.1384	-0.7479	-1.3061	-0.8914
-2	0.2634	1.1702	0.4018	0.2242	0.1203	-0.6672
-1	-0.5562	-1.4222	-0.1544	0.4364	0.7906	-0.2307
0	**1.1222**	**5.0873*** **	**0.9678**	**0.7678**	**1.6857***	**0.5370**
1	0.6832	3.9252***	1.6510	0.1381	-0.2316	0.6751
2	0.0629	-0.8427	1.7139	-0.3142	-1.5993	0.3609
3	0.0872	-0.1484	1.8011	-1.3543	-3.0076***	-0.9934
4	0.1234	0.6869	1.9245	-0.3429	-0.7084	-1.3363
5	-0.3822	-1.5564	1.5423	-0.1405	-0.2728	-1.4767
6	0.0576	0.2118	1.5999	-0.8155	-1.2598	-2.2922
7	-0.3193	-1.3707	1.2806	0.8310	1.9721**	-1.4613
8	0.1714	0.5398	1.4519	-0.2697	-0.9307	-1.7309
9	0.0908	1.3911	1.5427	0.1362	0.1812	-1.5948
10	-0.1639	-0.1147	1.3788	-0.4969	-1.0275	-2.0917
15	-0.1494	-0.1128	1.4533	-0.2552	0.2361	-1.3541
20	-0.1763	-1.1052	1.6244	0.1791	0.9466	-1.7764
25	0.2367	0.7143	2.0174	-0.0812	-0.4988	0.6460
30	-0.0469	-0.2069	2.9232	0.7124	0.2704	1.0634

* Different from zero at 10% significant level
** Different from zero at 5% significant level
*** Different from zero at 1% significant level

Figure 3: Methods of payment and cumulative average daily abnormal returns for acquiring firms from year 2000 to 2005



(c) Acquiring firm returns by target type and method of payment

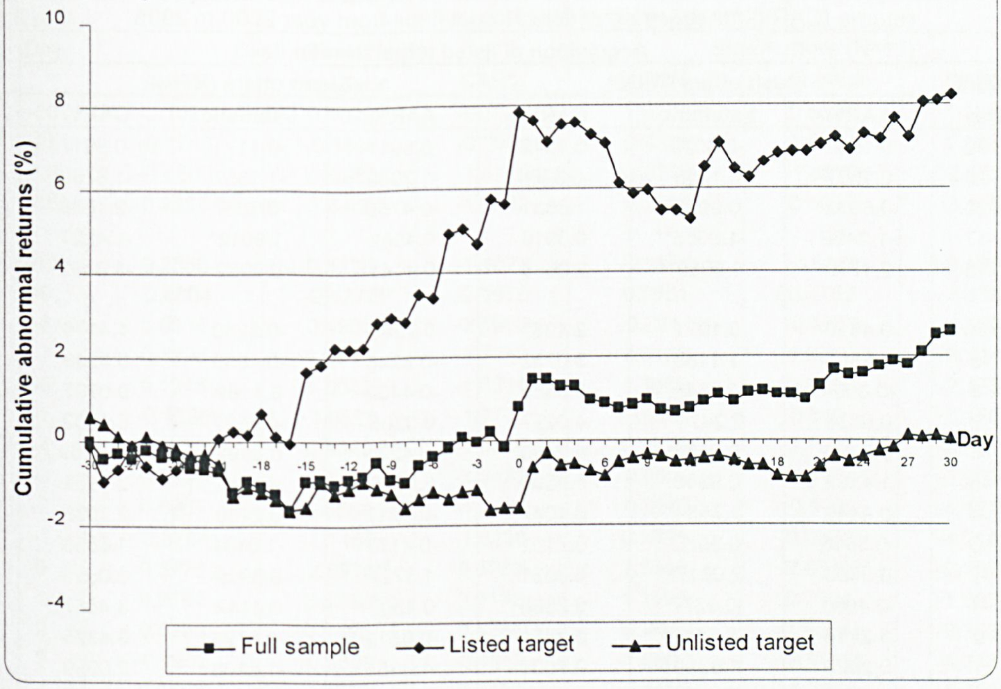
The positive returns to the acquiring firms (Table 1, All Acquiring firms) are statistically significant. The sample for this study includes acquiring for both listed (public acquisitions) and unlisted target (about 73% is private acquisitions). Table 4 and Figure 4 show that both target type has significantly positive returns, and acquiring of listed target (AARs = 2.2%, t = 6.0361) gain more than unlisted target (0.06%, t = 3.1765) at the announcement day. The evidence of public acquisitions have higher returns for acquiring firms is inconsistent with Fuller *et al.* (2000) and Conn *et al.* (2005) study. However, the significantly positive returns for public acquisitions are limited to the announcement date only and from day -1 losing most of its prior gain. This might indicate that market is efficient and major share value change occurs at the event day. The significantly positive returns during the two day event period for the acquiring of unlisted targets may suggesting that investors reacts slowly to the acquisition of unlisted target.

Table 4
Percentage average daily abnormal returns (AARs) and cumulative average abnormal returns (CARs) for acquiring of listed and unlisted target firms from year 2000 to 2005

Event	Acquisition of listed targets (N=41)			Acquisition of unlisted targets (N=113)		
Day	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	-0.1572	-1.0114	-0.1572	0.5740	0.3163	0.5740
-25	-0.2932	-0.7212	-0.8697	-0.2247	0.0757	-0.0965
-20	0.1681	0.6100	0.2379	-0.7434	-1.8252*	-1.2852
-15	1.7150	2.4192**	1.6491	0.0990	1.7452*	-1.5333
-10	0.5731	-0.0729	2.8155	-0.1586	0.7965	-1.1159
-9	0.1168	0.8118	2.9323	-0.1258	-2.2848**	-1.2417
-8	-0.1178	0.2909	2.8145	-0.3469	0.1120	-1.5886
-7	0.6696	1.7307*	3.4840	0.2104	1.7558*	-1.3781
-6	-0.0971	0.1459	3.3870	0.1728	1.3191	-1.2054
-5	1.5455	2.6298***	4.9325	-0.1666	-1.2468	-1.3720
-4	0.1214	1.2383	5.0538	0.1669	0.7767	-1.2052
-3	-0.3599	-0.1600	4.6940	0.0243	0.0686	-1.1809
-2	1.0540	2.3469**	5.7479	-0.4659	0.0586	-1.6468
-1	-0.1247	-0.2304	5.6233	0.0507	-0.9617	-1.5962
0	**2.2295**	**6.0361*** **	**7.8528**	**0.0589**	**3.1765*** **	**-1.5372**
1	-0.2325	0.5929	7.6203	0.8938	3.5287***	-0.6434
2	-0.4993	-1.9047*	7.1210	0.3265	-0.7092	-0.3169
3	0.4413	0.4178	7.5623	-0.3004	-1.9240*	-0.6173
4	0.0365	0.8658	7.5988	0.0566	-0.0989	-0.5607
5	-0.2871	-0.7484	7.3117	-0.1596	-1.3790	-0.7203
6	-0.2229	-0.9423	7.0888	-0.1242	0.0663	-0.8445
7	-0.9346	-1.2840	6.1542	0.3401	0.2528	-0.5044
8	-0.2544	-1.6134	5.8997	0.0805	0.9309	-0.4239
9	0.0540	0.3813	5.9537	0.0742	1.3509	-0.3497
10	-0.4704	-1.0973	5.4833	-0.0438	-0.0748	-0.3935
15	-0.6042	-0.9878	6.4712	-0.0568	0.5208	-0.4611
20	0.0260	-0.4172	6.9032	0.0056	-0.4514	-0.9015
25	-0.0885	-0.7519	7.1944	0.0986	0.8851	-0.2804
30	0.1102	-0.0064	8.1947	-0.0593	-0.0740	0.0438

* Different from zero at 10% significant level
** Different from zero at 5% significant level
*** Different from zero at 1% significant level

Figure 4: Cumulative abnormal returns for acquiring firms for acquisitions of listed and unlisted target from year 2000 to 2005



The abnormal returns for methods of payment (cash only and share only) for listed and unlisted target are presented in Table 5 and Table 6. The results is mix, for the public acquisition with cash deals have higher returns on announcement day (AARs = 3.21%, CARs = 9.47%, t = 6.5417), which statistical significantly at 1% level. In contrast, the public acquisition with share deals, AARs is -0.05%, and t value is -0.6194, which is insignificantly at the level of 0.10. This could be the market take this as a positive signal of acquiring expectations of future returns. As for acquisition of unlisted targets, returns are small, but significantly regardless of methods of payment is cash (0.38%) or share (1.5%).

Table 5

Percentage average daily abnormal returns (AARs) and cumulative average abnormal returns (CARs) for acquiring of listed target firms from year 2000 to 2005

Event Day	Acquisition of listed target (N=41)					
	Cash offers (N=28)			Share offers (N=13)		
	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	0.1542	-0.3030	0.1542	-0.5917	-0.1171	-0.5917
-25	0.1667	0.1258	-0.3364	-1.2982	-1.1357	-1.8760
-20	0.5332	0.9033	1.3631	-0.4755	-0.3087	-2.1638
-17	-1.2458	-1.9665**	0.3916	0.4882	1.9012*	-1.4827
-15	2.1740	1.9950**	2.2665	0.4441	0.9082	-1.0462
-10	0.4810	0.1971	2.4933	0.7595	-0.3230	1.4176
-9	0.5800	1.1185	3.0733	-0.8948	-0.4989	0.5228
-8	-0.0094	0.2648	3.0638	-0.4432	0.1189	0.0797
-7	0.9638	2.2471**	4.0277	0.0205	-0.6527	0.1002
-6	0.2220	0.0853	4.2496	-0.4270	0.8692	-0.3269
-5	1.4102	0.9856	5.6598	2.5220	4.1467***	2.1951
-4	0.4449	1.7534*	6.1047	-0.0917	0.2139	2.1035
-3	-0.3916	0.3070	5.7131	-0.4177	-1.0131	1.6858
-2	0.9500	2.0617**	6.6631	1.3727	0.8919	3.0585
-1	-0.4063	-0.6377	6.2568	0.4302	0.4142	3.4887
0	**3.2114**	**6.5417*** **	**9.4681**	**-0.0512**	**-0.6194**	**3.4375**
1	0.2820	1.6359	9.7501	-1.3385	-1.5108	2.0989
2	-0.8142	-2.1151**	8.9359	0.1212	-0.1072	2.2202
3	1.2441	1.4489	10.1800	-1.3543	-1.6969*	0.8658
4	0.1561	0.5407	10.3361	-0.1595	1.0978	0.7063
5	-0.1449	-0.2391	10.1912	-0.2888	-0.5400	0.4175
6	0.3124	-0.1203	10.5036	-1.5361	-1.3506	-1.1186
7	-1.4366	-1.8246*	9.0670	0.2080	0.9075	-0.9106
8	-0.2461	-1.1079	8.8209	-0.2242	-1.0398	-1.1347
9	-0.1404	-0.2843	8.6805	0.3212	1.1030	-0.8136
10	-0.0601	0.2041	8.6204	-1.5649	-2.2062**	-2.3785
15	-0.8405	-1.0775	9.3479	-0.4715	0.9614	-1.8336
20	-0.0975	-1.0081	9.6430	0.2537	0.7731	-0.7464
25	-0.0256	-0.4526	8.7755	-0.0378	-0.4499	2.3854
30	0.4890	0.7829	10.8517	-0.8059	-1.5837	1.8250

* Different from zero at 10% significant level

** Different from zero at 5% significant level

*** Different from zero at 1% significant level

Table 6
Percentage average daily abnormal returns (AARs) and cumulative average abnormal (CARs) returns for acquiring of unlisted target firms from year 2000 to 2005

Event Day	Acquisition of unlisted target (N=113)					
	Cash offers (N=96)			Share offers (N=17)		
	AAR%	t-statistic	CAR%	AAR%	t-statistic	CAR%
-30	-0.1026	0.1029	-0.1026	1.0334	0.6696	1.0334
-25	-0.1748	-0.3507	-0.3903	0.4326	1.0737	1.2661
-20	-0.4598	-1.0983	-1.4710	-1.8297	-1.8878*	-2.8532
-15	0.2664	1.6468*	-1.6582	0.1528	0.6017	-3.1566
-10	0.2566	0.4138	-1.4873	-0.5876	-0.2472	-3.4902
-9	-0.6804	-2.4272**	-2.1678	0.0551	0.4762	-3.4351
-8	0.0618	0.4965	-2.1060	-0.7251	-0.6886	-4.1602
-7	0.3308	1.5017	-1.7752	0.6160	1.0296	-3.5442
-6	0.1516	1.0042	-1.6236	1.3662	0.9409	-2.1781
-5	-0.1536	-1.0521	-1.7772	-0.9951	-0.6491	-3.1731
-4	0.3432	0.4343	-1.4340	0.2312	0.1347	-2.9419
-3	0.0903	0.6320	-1.3437	-0.9609	-1.1924	-3.9028
-2	0.0965	0.5584	-1.2472	-0.5247	-0.3323	-4.4276
-1	-0.5764	-1.1465	-1.8236	0.2091	0.0582	-4.2185
0	**0.3779**	**2.0970****	**0.3779**	**1.5115**	**2.6518****	**-2.7070**
1	0.9162	3.3239***	0.9162	1.1493	0.7824	-1.5578
2	0.3288	0.1495	0.3288	-0.8059	-1.9034*	-2.3637
3	-0.1952	-0.9399	-0.1952	-1.8800	-2.5143**	-4.2437
4	0.1407	0.4236	0.1407	-0.8100	-1.2850	-5.0537
5	-0.4484	-1.6518*	-0.4484	0.1875	0.2536	-4.8662
6	-0.0158	0.3714	-0.0158	-0.5271	-0.5682	-5.3933
7	0.0209	-0.6517	0.0209	1.3147	2.2928**	-4.0786
8	0.2518	1.0743	0.2518	0.2363	-0.2258	-3.8423
9	0.1657	1.7750*	0.1657	-0.0641	-0.4872	-3.9065
10	-0.2188	-0.2037	-0.2188	0.4080	0.3439	-3.4985
15	0.0092	0.5097	0.0092	-0.8738	0.2840	-3.8680
20	-0.1865	-0.6716	-0.1865	0.1210	0.4509	-5.3242
25	0.3222	0.9645	0.3222	-0.3788	-0.1499	-3.6357
30	-0.2217	-0.8675	-0.2217	2.8741	2.0873**	-0.9496

* Different from zero at 10% significant level
** Different from zero at 5% significant level
*** Different from zero at 1% significant level

5. Conclusions

This paper examines the effect of acquisitions on the shareholders' wealth in the Malaysian market over the period of 2000 to 2005. Our evidence suggests that both target and acquiring firms earn statistically significant positive abnormal returns on the announcement day, which is consistent with the previous studies. We also find that the major stock value change occurs on the event day. While from day 2 the target and acquiring firm share are decrease, and losing most of its prior gains.

As for the method of payment, our results are generally consistent with the methods of payment hypothesis. This hypothesis states that when the acquiring firm's management consider its own share to be overvalued (undervalued), shares (cash) will be relatively more attractive as a method of payment. For both target and acquiring firms it is found that on announcement date cash offers have higher returns than share offers.

Our results also indicate that acquiring listed target have higher returns than unlisted target. This may be due the fact that the unlisted targets are small in size relative to the listed targets and present only a marginal impact on the acquiring firms.

End Notes

[1] Mansor (1994) results indicate that overall target firms have insignificantly positive abnormal returns before the announcement date, except on the day -9 and day -3. However, on the announcement date is insignificantly positive returns.

[2] Fauzias (1992) investigate the effects of acquisition announcements for the period of 200 day before to 200 after the announcement date. The evidence shows target firms earned insignificantly positive returns at day 0. While for the acquiring average returns are significantly positive on the announcement date. However, after the announcement date, the returns of acquiring decline significantly from day 1 to 200 days.

[3] Carleton, Guilkey, Harris and Stewart (1983), argue that failure to distinguish between the cash and noncash acquisitions may lead to inappropriate generalizations.
Travlos (1987) study indicated that when the acquiring firm acquires another firm through an exchange of share, its shareholders experience statistically significant losses. When acquiring firms finance the acquisition with cash, the shareholders obtain normal rate of returns at the announcement period. Amihud, Lev, and Travlos (1990), Trifts (1991), and Mansor (1994) studies supports Travlos (1987) evidence, reporting that share offer have significant negative abnormal returns and cash payment have positive, but not significant.

[4] Asquith, Burner and Mullins (1983) and R. Abdul Rahman and Limmack (2004) suggested that if the investment amount in the target is small relative to the value of the acquiring firm, the change in value from the acquisition may not cause much change either in the acquiring firm's share price.

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